

**UNITED STATES INTERNATIONAL TRADE COMMISSION**

**APPAREL INPUTS IN “SHORT SUPPLY”: KNIT APPAREL OF  
OPEN-END-SPUN RAYON YARN**

Investigation No. 332-428-009

August 2001



## Apparel Inputs in “Short Supply”: Effect of Providing Preferential Treatment to Apparel Imported from Sub-Saharan African and Caribbean Basin Countries

### U.S. International Trade Commission Investigation No. 332-428-009

Products	Knit apparel of open-end-spun rayon yarn
Requesting Party	Fabritex, Inc., Lincolnton, NC
Date of Commission Report: USTR Public	August 15, 2001 August 2001
Commission Contact	Jackie W. Jones (202-205-3466; jones@usitc.gov)

#### NOTICE

THIS REPORT IS A PUBLIC VERSION OF THE REPORT SUBMITTED TO USTR  
ON AUGUST 15, 2001. ALL CONFIDENTIAL INFORMATION HAS BEEN  
REMOVED AND REPLACED WITH ASTERISKS (\*\*).

#### Summary of Findings

The Commission’s analysis shows that granting duty-free and quota-free treatment to knitted apparel made in eligible Caribbean Basin and sub-Saharan African countries from certain open-end-spun rayon yarns, regardless of the source of the yarns, would likely have a negligible adverse effect on U.S. producers having the capacity to make the subject yarns or similar yarns, U.S. apparel firms producing the apparel domestically, and their workers, and would likely benefit U.S. producers of fabrics made from the yarns, U.S. apparel firms assembling the apparel in eligible Caribbean Basin and sub-Saharan African countries, and their U.S.-based workers. U.S. consumers would likely benefit from some of the duty savings resulting from the proposed preferential treatment.

#### Background

On March 14, 2001, following receipt of a request from the United States Trade Representative (USTR), the Commission instituted investigation No. 332-428, *Apparel Inputs in “Short Supply”: Effect of Providing Preferential Treatment to Apparel from Sub-Saharan African and Caribbean Basin Countries*, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) to provide advice during 2001 in connection with petitions filed by interested parties under the “short supply” provisions of the African Growth and Opportunity Act (AGOA) and the United States-Caribbean Basin Trade Partnership Act (CBTPA).<sup>1</sup>

The Commission’s advice in this report concerns a petition received by the Committee for the Implementation of Textile Agreements (CITA) on June 29, 2001, alleging that certain open-end-spun rayon yarns cannot be supplied by the domestic industry in commercial quantities in a timely manner and requesting that the President proclaim preferential treatment for apparel made in eligible CBTPA and AGOA beneficiary countries from knitted fabrics produced in the United States of such yarns, regardless of the source of yarns. The President is required to submit a report to the House Committee on Ways and Means and the Senate Committee on Finance that sets forth the action proposed to be proclaimed,

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<sup>1</sup> For more information on the investigation, see the Commission’s notice of investigation published in the *Federal Register* of March 21, 2001 (66 F.R. 15886), as well as the special area on its internet site for the investigation ([www.usitc.gov/332s/shortsup/shortsupintro.htm](http://www.usitc.gov/332s/shortsup/shortsupintro.htm)).

the reasons for such action, and the advice obtained from the Commission and the appropriate advisory committee within 60 days after a request is received from an interested party.<sup>2</sup>

This is the second petition submitted by Fabritex on the subject yarn.<sup>3</sup> The current petition clarifies the product coverage, stating that the subject yarn is made of micro-denier, solution-dyed viscose rayon staple fibers and that these fibers are made (spun) into yarns on the open-end spinning system. In addition, the current petition requests that the proposed preferential treatment be granted to apparel made in eligible CBTPA beneficiary countries as well as eligible AGOA beneficiary countries.

### **Brief discussion of products**

The rayon yarns named in the petition are classified in subheading 5510.11.00 of the Harmonized Tariff Schedule of the United States (HTS), which provides for single yarns (other than sewing thread), not put up for retail sale, containing 85 percent or more by weight of artificial staple fibers. The subject yarns are used in the manufacture of knitted fabrics for apparel classified in HTS chapter 61 (knitted or crocheted apparel). The principal knitted garments made from the subject yarns are women's fashion wear, such as tops (e.g., shirts), skirts, pants, and maternity wear, sold in the higher end of the retail market. The rates of duty on these garments range from 6 percent to 28.7 percent ad valorem.

The yarns named in the petition are 30 singles (30/1) and 36 singles (36/1) yarns made of micro-denier,<sup>4</sup> solution-dyed, viscose rayon staple fibers that are spun into yarns on the open-end spinning system.<sup>5</sup> According to the petitioner, the subject yarns are distinctive because they are (1) solution dyed (i.e., the fiber is colored by the introduction of pigments or insoluble dyes into the polymer melt or spinning solution prior to extrusion);<sup>6</sup> (2) extremely fine, because the yarns are made from micro-denier fibers and the yarns are of relatively high yarn numbers,<sup>7</sup> and (3) spun on open-end spindles, which reportedly results in a more consistent, uniform yarn,<sup>8</sup> made at high speeds. The petitioner stated that these high-quality yarns are used in the manufacture of specialty knitted fabrics, which exhibit exceptional "hand," drape, and a silkiness and smoothness not found in other knitted fabrics, and for which there are no viable substitutes. In addition, the petitioner stated that these fabrics, which are marketed under the Savannah brand name, contain spandex, a synthetic elastic material similar to natural rubber.

All rayon is produced by the viscose process. In the viscose process, cellulosic materials such as wood chips, pulp, or cotton linters are dissolved in an alkaline solution. The solution is treated with a carbon

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<sup>2</sup> In Executive Order No. 13191, the President delegated to CITA the authority to determine whether particular fabrics or yarns cannot be supplied by the domestic industry in commercial quantities in a timely manner. He authorized CITA and USTR to submit the required report to the Congress.

<sup>3</sup> On May 3, 2001, CITA denied Fabritex's petition requesting short supply designation for certain viscose rayon yarn (see CITA's announcement in the *Federal Register* of May 8, 2001 (66 F.R. 23237)). The Commission's report in connection with the first petition filed by Fabritex, *Knit Apparel of Viscose Rayon Yarns* (Inv. No. 332-428-004), Apr. 27, 2001, may be found on its website <[http://www.usitc.gov/332s/shortsup/332\\_428\\_004.pdf](http://www.usitc.gov/332s/shortsup/332_428_004.pdf)>.

<sup>4</sup> Micro-denier is 1 denier or less. (Denier is the number of unit weights of 0.05 grams per 450-meter length.) It is a direct numbering system in which the lower numbers represent the finer sizes.

<sup>5</sup> The numbers 30/1 and 36/1 indicate the number of 840-yard lengths in a pound of yarn (30 or 36) and the number of plies (1, or single, ply). The higher the yarn number (e.g., 30 or 36), the finer the yarn.

<sup>6</sup> Celanese Corp., *Man-Made Fiber and Textile Dictionary*, New York, NY, p. 48. Fabritex's written submission to CITA, dated July 30, 2001, states that in its current petition, the explanation of solution dyed is "inexact," but indicates that the subject yarn imported by Fabritex is solution dyed.

<sup>7</sup> According to the petitioner, rayon yarns made domestically usually have lower yarn numbers of 16, 18, or 20 and are typically coarser than the subject yarns imported by Fabritex.

<sup>8</sup> Brenda A. Jacobs, Counsel, Powell, Goldstein, Frazer, & Murphy LLP, Washington, DC, on behalf of Fabritex, Inc., petition filed with CITA, June 29, 2001; Donald Baum, Vice President, Group Manufacturing Director, Liz Claiborne, Inc., telephone interview by Commission staff, July 23, 2001; and Charles Little, President of the Yarn Division, Mount Vernon Mills, Greenville, SC, telephone interview by Commission staff, Aug. 6, 2001.

disulfide to produce a solution of cellulose xanthate. This solution is then forced through tiny spinnerets in an acid bath to produce the essential rayon fiber. Solution-dyed fiber is produced by adding a dye as the rayon fiber is being forced through the spinnerets so that the fibers are colored as they are formed. In solution dyeing, the color becomes an integral part of the fiber and is not easily affected by outside environmental conditions.<sup>9</sup>

Although rayon fiber is produced in the United States, an industry source indicated that the expertise and equipment needed for solution dyeing currently does not exist in the United States and that it is not economically feasible to import the necessary expertise and equipment.<sup>10</sup> This fiber, however, can and is being imported by U.S. yarn producers. Fabritex stated there are only a few yarn producers in Spain, France, and Germany that can provide it with the subject yarns.<sup>11</sup> Fabritex continues to import the subject yarns from Spain.<sup>12</sup>

### **Brief discussion of affected U.S. industries, workers, and consumers**

The affected segments of the U.S. textile and apparel industries include producers of yarns, fabrics, and apparel. In connection with the first petition, the American Yarn Spinners Association (AYSA) stated that there were at least five domestic producers of single rayon yarns using imported solution-dyed fibers: Richmond Yarns, Inc., Rockingham, NC, and its affiliate, Mount Vernon Mills, Greenville, SC; Carolina Mills, Maiden, NC; Cavalier Specialty Yarn Co., USA, a division of Cavalier Textiles, Gastonia, NC; Four Leaf Textiles LLC, Shelby, NC; and Belding Hausman, Inc., Lincolnton, NC. At that time, all of these firms stated that they had the equipment and the capability to accept orders of any size for the subject yarns, with production lead times similar to those required for the imported yarns.<sup>13</sup>

In connection with the second, and current, petition, Fabritex stated that none of these firms is able to supply it with the open-end-spun (OES) rayon yarns.<sup>14</sup> In telephone interviews by Commission staff, Four Leaf Textiles said it makes neither OES rayon yarns nor yarns that could be used as substitutes for the subject yarns imported by Fabritex from Spain;<sup>15</sup> \*\*\*<sup>16</sup> and Carolina Mills stated that it does not spin any solution-dyed fibers on its open-end spinning system because of contamination issues and that it \*\*\*.<sup>17</sup> Cavalier Textiles said it does not make OES rayon yarns domestically but offered to supply Fabritex with a substitute ring-spun yarn.<sup>18</sup> According to Fabritex, the sample yarn from Cavalier

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<sup>9</sup> Marjory L. Joseph, *Essentials of Textiles*, 4th ed. (Fort Worth, TX: Holt, Rinehart and Winston, Inc., 1988), p. 291.

<sup>10</sup> Dan Blair, Lenzing Fibers, Lowland, TN, telephone interview by Commission staff, Mar. 26, 2001.

<sup>11</sup> The general rate of duty on the subject yarns is 9.6 percent ad valorem. Additional duties also exist for certain single yarns from selected European Union countries. Effective July 29, 1999, following completion of an investigation under section 301 of the Trade Act of 1974, the President created HTS subheading 9903.02.42, and imposed a 100-percent ad valorem duty on imports of single yarns, the product of France or the Federal Republic of Germany. This duty was one element of a broader action taken in response to the failure of the European Union to end its ban on the importation of U.S. meat from animals treated with certain hormones.

<sup>12</sup> Brenda A. Jacobs and Leigh Fraiser, on behalf of Fabritex, Inc., written submission to the Commission, Apr. 13, 2001; Edward Moskowitz, CEO, Fabritex, Inc., telephone interview by Commission staff, Aug. 3, 2001.

<sup>13</sup> Jim H. Conner, Executive Vice President, AYSA, Gastonia, NC, written submissions to CITA and telephone interviews by Commission staff, Mar. 20-29, 2001; Carlos Moore, Executive Vice President, American Textile Manufacturers Institute, written submission to CITA, Mar. 29, 2001.

<sup>14</sup> Brenda A. Jacobs, on behalf of Fabritex, Inc., petition filed with CITA, June 29, 2001, pp. 4-8.

<sup>15</sup> Roy Lockett, Director of International Sales, Four Leaf Textiles LLC, telephone interview by Commission staff, July 24, 2001.

<sup>16</sup> \*\*\*.

<sup>17</sup> \*\*\*.

<sup>18</sup> Brenda A. Jacobs, on behalf of Fabritex, Inc., petition filed with CITA, June 29, 2001, p. 7.

Textiles was too coarse for its Savannah fabric line and that the only color supplied was black. Cavalier Textiles said \*\*\*.<sup>19</sup>

Commission staff also contacted another firm that reportedly spins the subject yarn--Tuscarora Mills, Mount Pleasant, NC. \*\*\*.<sup>20</sup>

Fabrictex stated that it buys the subject yarns from Spain, typically in lot sizes averaging approximately 3,300 pounds per color, and usually receives delivery of the yarns within 4 weeks of order placement.<sup>21</sup> A sampling of purchase orders and commercial invoices submitted by Fabrictex shows that its order sizes, by color, \*\*\*.<sup>22</sup> Fabrictex said it orders the subject yarns in colors that are "in stock" rather than in colors that are specially created to its specifications.<sup>23</sup> Fabrictex stated that it orders yarns of certain colors from several suppliers who provide "color cards" indicating the colors they have in stock. According to Fabrictex, it then selects its color line for the season from these suppliers' available colors.<sup>24</sup>

Fabrictex stated that U.S. yarn spinners would be unable to meet its needs for the subject yarns in terms of minimum order size, variety of colors, and delivery in a timely manner, because the yarn spinners do not keep inventories of color cards and/or colors of solution-dyed rayon staple fibers or rayon staple yarn. AYSA said it contacted producers of rayon staple fibers in Spain, Germany, and Austria,<sup>25</sup> and found that their minimum order sizes for solution-dyed colored fibers "not in stock" ranged from 11,000 to 44,000 pounds and delivery times ranged from 10 to 12 weeks.<sup>26</sup> According to the petition, Cavalier Textiles said its minimum order size for the yarn would be 9,000 to 11,000 pounds per color (with colors unspecified) with a delivery time of 9 to 10 weeks. According to Cavalier Textiles, it would be unwilling to spin orders of less than 10,000 pounds per color because of contamination issues, which require that yarn spinners, whether U.S. or European, thoroughly clean the equipment before spinning yarn of another color.

AYSA stated there may be alternatives available domestically to using the subject yarn imported by Fabrictex, such as using U.S.-made ring-spun rayon yarns or different dyeing methods.<sup>27</sup> AYSA said ring-spun yarns generally have a "better hand" than OES yarns. According to Fabrictex and one of its customers (\*\*\*), ring-spun yarns are not substitutable for the OES rayon yarns.<sup>28</sup> Fabrictex stated that OES and ring-spun rayon yarns have very different characteristics and that OES rayon yarns have the physical characteristics necessary to make the knitted fabrics demanded by its apparel customers.<sup>29</sup> The petitioner also stated that the processing of rayon staple fibers into yarns on the open-end spinning system gives the yarns more stiffness or body, which contributes to the characteristic drape of the knitted fabric.<sup>30</sup>

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<sup>21</sup> Brenda A. Jacobs, on behalf of Fabrictex, Inc., petition filed with CITA, June 29, 2001, p. 7.

<sup>22</sup> Brenda A. Jacobs, on behalf of Fabrictex, Inc., purchase orders and invoices supplied with written submission to CITA, July 30, 2001; and purchase orders supplied to Commission staff, July 26, 2001.

<sup>23</sup> Brenda A. Jacobs, on behalf of Fabrictex, Inc., written submission to CITA, July 30, 2001, p. 2.

<sup>24</sup> Brenda A. Jacobs, on behalf of Fabrictex, Inc., written submission to CITA, July 30, 2001, p. 2.

<sup>25</sup> Jim H. Connor, AYSA, written submission to CITA, July 24, 2001, p. 2.

<sup>26</sup> According to Cavalier Textiles, rayon staple fiber is available from about 12 producers in various countries in Europe.

<sup>27</sup> Information in this paragraph, unless otherwise noted, is from Jim H. Conner, AYSA, written submission to CITA, July 24, 2001.

<sup>28</sup> Brenda A. Jacobs, on behalf of Fabrictex, Inc., petition filed with CITA, June 29, 2001, p. 4; and \*\*\*, telephone interview by Commission staff, July 23, 2001.

<sup>29</sup> Edward Moskowitz, Fabrictex, Inc., telephone interview by Commission staff, July 23, 2001.

<sup>30</sup> Edward Moskowitz, Chief Executive Officer (CEO), Fabrictex, Inc., telephone interview by Commission staff, July 23, 2001.

AYSA also said dyeing methods other than solution dyeing are available domestically, such as stock dyeing (i.e., dyeing the fibers after they have been formed), yarn dyeing, or piece-dyeing (dyeing the fabric). The petitioner stated that the solution dyeing of the rayon fibers accounts for the color fastness<sup>31</sup> and characteristic “hand” of the fabric. \*\*\*.<sup>32</sup> There are believed to be about three U.S. stock dyers, which generally dye smaller lots than solution, yarn, or piece dyers and supply niche markets.<sup>33</sup>

During the review of the first petition, apparel industry sources stressed the importance of being able to source the knitted fabrics in the quality and colors they need to complete their fashion line in a timely and reliable manner,<sup>34</sup> and stated that they would cease purchasing the knitted fabrics made from the subject yarn from Fabrictex if the use of the fabrics would make their apparel ineligible for preferential treatment under the CBTPA or AGOA. Liz Claiborne stated it has stopped purchasing knitted fabrics made from the subject yarn from Fabrictex and that, to maintain the price points it needs to be competitive in today’s highly competitive retail market, it is more cost effective to use non-U.S. made fabrics and pay the duty on the finished garments than to use the Fabrictex fabrics.<sup>35</sup> \*\*\*.<sup>36</sup> Fabrictex stated that because customers like Liz Claiborne are switching to foreign-made fabrics because of the ineligibility of the Fabrictex fabrics for the CBTPA and AGOA programs, its consumption of yarn in the production of the knitted fabrics \*\*\* pounds in 1999 to \*\*\* pounds in 2000, and that it expects to consume \*\*\* of yarn for its Savannah line in 2001.<sup>37</sup> Fabrictex also reported that because of the loss of sales in its Savannah line, which accounts for \*\*\* of its total sales, it was forced to lay off one-third of its workforce at its North Carolina mill. Fabrictex stated it will lose additional accounts with apparel firms if the short supply designation is not granted in the near future, because apparel firms are developing their production plans for their fall 2002 line and need to know the status of the short supply designation.<sup>38</sup>

At the time of the first petition, Fabrictex stated there were two other U.S. producers of fabric similar to its fabric. One of these producers stated that it had never made rayon fabric and that it was closing down completely.<sup>39</sup> \*\*\*.<sup>40</sup>

Information on U.S. firms producing apparel from the subject yarns is not readily available, partly because of the range of apparel articles involved and partly because imports are likely to account for most of the domestic market for such articles. Fabrictex stated it sells its Savannah line of knitted fabrics \*\*\*. It is believed that much of the subject garments made for these apparel firms are assembled abroad.

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<sup>31</sup> Brenda A. Jacobs, on behalf of Fabrictex, Inc., written submission to CITA, July 30, 2001, p. 1.

<sup>32</sup> \*\*\*.

<sup>33</sup> Richard Littlewood, G.J. Littlewood and Son, Inc., Philadelphia, PA, telephone interview with Commission staff, July 26, 2001.

<sup>34</sup> Frank Kelly, Liz Claiborne, North Edison, NJ, telephone interview by Commission staff, Mar. 22, 2001, and Ron Shulman, The Limited, Inc., Columbus, OH, written submission to CITA, Apr. 4, 2001.

<sup>35</sup> Donald Baum, Liz Claiborne, Inc., North Bergen, NJ, written submission to CITA, July 24, 2001.

<sup>36</sup> \*\*\*.

<sup>37</sup> Brenda A. Jacobs, on behalf of Fabrictex, Inc., petition filed with CITA, June 29, 2001, p. 3.

<sup>38</sup> Edward Moskowitz, Fabrictex, Inc., telephone interview by Commission staff, Aug. 2, 2001.

<sup>39</sup> An official of Dyersburg Corp., Dyersburg, TN, telephone interview by Commission staff, Aug. 2, 2001.

<sup>40</sup> \*\*\*.

## **Views of interested parties**

No written statements were filed with the Commission.

## **Probable economic effect advice<sup>41</sup>**

The Commission's analysis shows that granting duty-free and quota-free treatment to knitted apparel made in eligible CBTPA and AGOA beneficiary countries from the subject rayon yarns can be expected to have a negligible adverse effect on U.S. producers having the capacity to make the subject and similar yarns and their workers. It is uncertain whether U.S. yarn spinners, which may have the capacity to make (spin) the subject yarns from imported solution-dyed fibers, are able to supply the yarns in the required color blends and delivery times that meet the requirements of the domestic knitted fabric producer, which imports the yarn. It is also uncertain whether any similar yarns would be substitutable for the subject yarns. It appears that, even if there may be ample domestic capacity to produce the subject yarns, issues such as achieving acceptable color blends and delivery times exist to the extent that no orders for such domestically spun yarn have been placed.

The proposed preferential treatment can be expected to benefit U.S. producers of knitted fabrics made from the subject yarns, and their workers, as a result of increased demand for the U.S. fabrics. It is believed that the expected increased demand for the knitted fabrics would not displace demand for other types of fabrics, because the knitted fabrics are considered to be specialty fabrics used in higher-end coordinated fashions. The finished apparel is very price competitive, and lowering the price on such apparel would likely result in increased sales and corresponding higher demand for the knitted fabrics.

The proposed preferential treatment can also be expected to benefit U.S. and other apparel firms making garments in eligible CBTPA and AGOA beneficiary countries from non-U.S. yarns. The expected increase in imports of such apparel from the CBTPA and AGOA countries would primarily displace imports of similar apparel entering free of duty from Mexico under the North American Free-Trade Agreement and dutiable imports from Asian countries. However, the proposed preferential treatment can be expected to have a negligible adverse effect on any U.S. firms making apparel articles domestically and on their workers.

U.S. consumers of apparel made from the subject yarns would benefit from the proposed preferential treatment because importers are likely to pass on some of the duty savings to retail consumers in today's highly competitive retail apparel market. In addition, consumers may benefit from having access to a wider range of apparel articles made from the subject yarns.

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<sup>41</sup> The advice below is based on information currently available to the Commission.